

9. PRIVATE DEVELOPMENT PROJECTS

A number of specific project initiatives were identified during the planning process. General economic testing has been conducted for a selected group of these catalyst projects to establish overall feasibility, to identify the expected economic benefits to the City, and to outline the extent to which public participation is required for each project. These projects include a parking garage on Jefferson and Eighth Streets, an ice-skating rink/family recreation center, a multi-screen cinema, and several hundred units of housing in the form of loft conversions and new construction. Program assumptions and implementation strategies for catalyst projects are highlighted below.

The planning team notes that it is important to distinguish between marketability (i.e., the amount of market demand for a project), financial feasibility and economic benefit. Marketability is defined as the degree to which various factors (e.g., population expansion, and employment growth) will drive *demand* for certain real estate such as housing or office space. In other words, how much market is available to *support* such uses. Financial feasibility—from a developer's perspective—concerns itself with the capacity of a project to be financed by defining an annual revenue stream in the form of rents and operating expenses to arrive at a builder's profit margin and amount of annual income available for debt service. Last, economic benefits include both direct (e.g., construction and permanent jobs created by the new development, property tax revenues generated for a municipality) and indirect (e.g., additional retail spending generated by those households occupying the new housing units).

Riverviews is an excellent illustration of the distinction between these three economic models. While the market for new downtown housing in Lynchburg is as yet untested on a large scale, Riverviews is intended to serve as a catalyst to establish (or position) downtown Lynchburg as a viable location for market-rate housing in the future. Its recent pre-leasing



Residential reuse and new infill on Jefferson Street will provide “eyes on the park” for increased safety.

success (i.e., refundable deposits have been made on 22 of 36 units) demonstrates that the project has achieved overall credibility in the marketplace and bodes well for future, more significant efforts for new downtown housing.

Moreover, in markets nationwide where new downtown housing is developed, market-rate rental product is commonly introduced before any for-sale product. In general, this reduces a developer's level of risk, allows the marketplace to respond (e.g., young professionals are more willing to live in an untested location than are other market segments), and builds the foundation for diversifying product—such as for sale—and mix at future points in time.

On the other hand, Riverviews' financial feasibility appears more difficult—primarily as a function of the limited rental rates that are currently achieved in the region's apartment market. As a result, according to the project's developer, the current pro forma has identified an operating gap requiring participation in the form of public funding from various sources.

Third, Riverviews also illustrates the variety of spin-off benefits likely to accrue as a result of the project. For example, the project will generate an estimated 60 person-years of construction employment, and construction income, as well as new permanent jobs and state income taxes. In addition, 36 new households in downtown will provide disposable income for nearby retailers. The project's commercial components will generate direct impacts such as jobs and retail sales taxes and indirect impacts such as the purchase of supplies to conduct business.

As noted below, the planning team has outlined the general market and financial feasibility characteristics of other catalyst projects as well as the expected economic benefits each will generate for the City.

In order to test the economic characteristics of the plan, the team outlined a prototypic structure for a variety of land uses in the study area. We note that some of these uses will require significant public interven-

tion; others will be undertaken by the private sector in accordance with the plan. With new development, the increased property values in the area will generate a revenue stream that can become the basis for public investment in infrastructure—such as parks—and other necessary improvements to the civic realm.

The economic analysis illustrates the residual value of each of the priority projects. Residual value measures the likelihood of feasibility based on the capacity to support the costs of land acquisition and/or to potentially offset a portion of the costs of public improvements. The model outlines total development costs for buildings, estimated on a gross basis from various sources (including local developers and brokers) and independent sources (e.g., Marshall & Swift). The model does not account for any costs associated with environmental remediation. Next, estimates of annual gross revenues (e.g., rental rates) and operating expenses are made for each use based on actual (or potential) market activity in Lynchburg. The third step in the model then capitalizes this "snapshot" of net operating revenue into an indicated value, or an estimate of what the project is worth. The resulting difference between total development costs and indicated value is the estimate of residual value.

9.1 Jefferson Street Housing

Overlooking Jefferson Street and the James River Park, new housing will be accommodated in renovated warehouse buildings (107 units) and new loft construction (174 units). These 281 units will enliven Jefferson Street and the James River Park, while providing the important "eyes on the park" that make urban open spaces feel safer at all hours of the day and evening.

Some of the housing will face onto the new Bluff Walk framing this walking street with three-story structures and multiple building or unit entrances. With some limited vehicular access along the Bluff Walk, residents of these units will have the ability to drop-off at the doorstep as necessary. Parking will be provided nearby in a series of low parking structures (ground level and one deck) along Commerce Street. On the Jefferson Street side, the new housing and the renovated loft buildings may have as many as seven stories providing dramatic views of the riverfront area. The ground floor, which is subject to flooding, will be reserved for lobby space, community rooms, and ground-level retail uses where economically feasible.

General development economics of housing in downtown have been tested, with the understanding that specific characteristics of individual projects will vary. This analysis provides a general assessment of the degree of feasibility based on order-of-magnitude development costs and stabilized year revenues and operating expenses in order to arrive at a residual value, again, an indicator of project feasibility.

The analysis indicates that a financing gap associated with the development of market-rate, for sale and rental housing in downtown Lynchburg



Jefferson Street and the riverfront park can be enlivened with residential uses in the historic warehouse buildings.

exists. While the consultant team believes that sufficient market demand exists for new downtown housing in Lynchburg, current market pricing levels appear insufficient to support feasibility. Thus, public participation in financing or land assembly (or some other incentive mechanism) is likely to be necessary to ensure feasibility and project initiation.

The following analysis addresses the economics of all proposed housing downtown including the 281 units on Jefferson Street, 36 new units on Court Street (Section 9.3) and 64 units on Twelfth Street (Section 9.2). The total number of units shown in the Downtown and Riverfront Plan is 381 plus the proposed 36 units at Riverviews.

Program Assumptions

- New housing development on Jefferson Street includes 174 units of new construction in four- and eight-floor structures along the Lower Bluff Walk between Jefferson and Commerce Streets. In addition, another 107 units are proposed in the renovation of loft buildings along Jefferson Street.
- For purposes of illustration, we analyzed market-rate rental housing product for the 107 loft conversion units on Jefferson Street and market-rate for sale product for the 174 loft units at Bluffwalk. The average unit size of all units is assumed to be 1,350 square feet on a gross basis.
- For the rental product, the model assumes order-of-magnitude development costs of \$90 per square foot, or \$13 million. By comparison, Riverviews development costs are estimated at \$98 per square foot for the 36,400 gross square feet of residential space. This assumes that costs are all in, inclusive of site work and surface parking for good- to excellent-quality construction. Land costs are excluded.
- For the for-sale product at Bluffwalk, the model assumes order-of-magnitude development costs of \$120 per square foot, or \$28.2 million. Again, this assumes that costs are all in, inclusive of site work and surface parking for good- to excellent-quality construction. Land costs are excluded.

Annual Revenue Potential and Operating Expenses

- This analysis assumes that the 107 units on Jefferson Street are high-quality, market-rate rental, with estimated supportable annual rents (on a gross basis) of \$0.85 per square foot for loft conversions. We note that this is an above-market rental rate in Lynchburg today. Total annual rent at 95% stabilized occupancy, based on successful

housing revitalization projects in urban areas, is estimated at \$ 1.4 million. Net of operating expenses at 28%, annual net rental income is \$1.0 million, or about \$9,400 per unit.

- For the for-sale product, the estimated average unit price (as defined by residential brokers in Lynchburg for market-rate for sale units) is \$150,000, or \$111 per gross square feet of building area. This yields gross sales revenues of approximately \$26 million; less the cost of sales at six percent, \$24.5 million in net sales revenue is estimated for the sale of 174 new loft units.

Feasibility and Economics

- For the 107 market-rate rental units, net operating income of \$9,400 per unit capitalized at a rate of 10% yields supportable development costs of about \$94,000 per unit. By comparison, the estimated average development cost is \$121,500 per unit. This indicates a financing gap of about (\$27,000) per unit. This finding is consistent with downtown housing economics in many smaller cities. In some cases, cities have established housing development funds that offer low-cost second mortgage financing to projects that meet their strategic objectives and are otherwise supportable by the market (i.e., sufficient demand exists to occupy units).
- Similarly, new construction of a for-sale loft product also indicates a shortfall when comparing market pricing to overall supportable development costs. In this case, the gap for 174 loft units is estimated at (\$3.6 million) or (\$21,000) per unit.
- Certain loft conversions and rehab projects may show better project economics, and tax credits can help capital formation, but the fundamental problem is that rents (and current market pricing of for-sale products) in Lynchburg today are relatively low. For example, mini-

mum pricing that would have to be achieved for the for-sale loft product at Bluffwalk to generate positive residual value (i.e., to be financially feasible) is estimated at \$172,000.

We believe that the first few successful projects, even if modest in scale, will have the effect of demonstrating a market and establishing credibility, which should, therefore, result in stronger rents and sale prices. However, some form of public incentive for housing development is necessary based on this analysis.

Economic Benefits

- Direct and indirect economic benefits include an additional 420 new residents from new households residing in downtown Lynchburg in these two prototype projects. Assuming average annual household incomes of \$35,000 in 281 new units, of which 30% is disposable, yields approximately \$3.0 million in disposable income, a portion of which will be spent downtown in retail stores, restaurants, and on services. In addition, these two prototype projects are expected to generate the following:
 - More than \$450,000 in net new annual property taxes (assuming development costs and assessed values are the same).
 - Approximately \$46,000 in annual state wage taxes based on \$1.0 million in annual permanent wages.
 - \$16 million in construction income generated by an estimated \$41 million in new development.

9.2 Twelfth and Court Street Housing

New housing at the foot of Diamond Hill will extend the residential texture of this neighborhood closer to the downtown. This five-acre site occupies a key gateway into downtown along Twelfth Street and will accommodate approximately 64 units. Three- to four-story townhouses in this five-acre area will face onto Twelfth Street, Church Street and Court Street with parking and terrace areas behind the units.

The scale of the housing will be similar to the existing downtown housing found along Church Street across from the YMCA and along Church Street at the intersection with Fifth Street. The existing residential building at the corner of Twelfth and Church Street establishes the appropriate scale for new development. The former supermarket building on this site should be studied for possible conversion to housing or other compatible use. Additional stories may be warranted, however, in order to provide sufficient critical mass of new housing in this location.

Pedestrian connections through this new residential development also will improve the connections between downtown and the Diamond Hill neighborhood. A pathway and stairs will follow the axis of Court Street to Washington Street and another path and stairs will follow the axis of Thirteenth Street to Clay Street. These stairs can become part of a linked walking trail throughout the downtown area, and suggest that each staircase should incorporate unique design features or planting themes.

The Twelfth Street housing is projected for development in a later phase since several existing businesses are located in this area, including Babcock Auto Service.

Program Assumptions

- The site on Twelfth Street can accommodate approximately 64 units of new townhouses. These townhouses would be typical of this type of development downtown, including the 36 units illustrated on Court Street (see Section 9.3). The average unit size of the townhouse units is assumed to be 1,350 square feet on a gross basis.
- For the for-sale product at both Court and Twelfth Streets, the model assumes order-of-magnitude development costs of \$105 per square foot, or \$14.2 million. This assumes that costs are all in, inclusive of site work and surface parking for good- to excellent-quality construction. Land costs are excluded.

Annual Revenue Potential and Operating Expenses

- The estimated average unit price (as defined by residential brokers in Lynchburg for market-rate for sale units) is \$125,000, or \$105 per gross square foot of building area. This yields gross sales revenues of approximately \$12.5 million; less the cost of sales at six percent, \$11.7 million in net sales revenue is estimated for the sale of 100 new loft units at both locations.

Feasibility and Economics

- The model indicates that new townhouse construction results in a shortfall when comparing market pricing above to overall supportable development costs. In this case, the residual value to develop 100 townhouse units yields a financing gap estimated at \$2.4 million or \$24,250 per unit.

- Minimum pricing that would have to be achieved for the for sale townhouse product at both Court and Twelfth Streets to generate positive residual value (i.e., to be financially feasible) is estimated at \$150,000. As a result, some form of public incentive for housing development is necessary based on this analysis.

Economic Benefits

- Direct and indirect economic benefits include an additional 150+ new residents from new households residing in downtown Lynchburg in the Twelfth Street and Court Street locations. Assuming average annual household incomes of \$35,000 for the 100 new units, of which 30% is disposable, yields approximately \$1.0 million in disposable income, a portion of which will be spent downtown in retail stores, restaurants, and on services. In addition, new townhouses on Court and Twelfth Streets are expected to generate the following:
 - More than \$157,000 in net new annual property taxes (assuming development costs and assessed values are the same).
 - Approximately \$16,500 in annual state wage taxes based on \$367,000 in annual permanent wages.
 - \$5.7 million in construction income generated by an estimated \$14.2 million in new development.

9.3 Court and Fifth Street Housing

In order to strengthen the connection between the residential neighborhood on Garland Hill and the downtown, additional housing has been proposed along Court Street near Fifth Street. These three- to four-story townhouse units will be built into the hillside so that the front doors open onto Court Street, and parking is accommodated underneath the buildings. On the upper side of Court Street, the parking will be accommodated behind the buildings. Approximately 36 units will be accommodated on a two-acre site.

Residential use in this part of downtown will complement the surrounding churches and the adjacent residential uses on Church Street. It also suggests that other opportunities for infill should be explored in this part of downtown. New market-rate housing is likely to follow other housing development downtown, once confidence is established in the market. This development will replace surface parking lots and may involve replacement of parking spaces.



Existing Residential Townhouses on Court Street West



Existing Residential Townhouses on Church Street East

9.4 Ice Skating Rink

The proposed ice-skating rink and entertainment center is an exciting prospect that could generate activity and draw families and other users from the region into the downtown. The facility will also complement and support other downtown uses such as restaurants. The program includes 35,000 gross square feet on one level, including an enclosed, year-round, regulation-sized ice rink (suitable for youth/high school hockey, Liberty University's hockey team and tournaments), concessionaire, pro shop, arcade, and bleacher seating. The dimensions of this type of facility typically measure 250 feet (length) by 110 feet (width) in order to accommodate all program elements.

The ice-skating rink requires a relatively large and level site, which constrains the possibilities in downtown Lynchburg. The Master Plan locates it between Main Street and Church Street in close proximity to the Community Market and the proposed cinema in the old City Auditorium. If this site is not available, alternative locations include the eastern end of Main Street across from the Horseford Street intersection, where it would complement the Welcome Center, the new park and the Bluff Walk Center, as well as the Community Market.

The rink could also be accommodated near the YMCA in place of the proposed housing, although this site is somewhat removed from the activities on Main Street. Another possible site is the corner of Ninth Street and Commerce Street near Amazeement Square and Riverviews. In this location, some program elements would have to be accommodated in adjacent buildings, and the Bluff Walk may be compromised. Depending on the final siting, the possibility of incorporating parking on a lower level built into the hillside below street level should be explored.

We have assumed new construction structured as a public-private partnership (turnkey deal) by a fee-based, third-party developer, operation/management by an experienced rink operator, and public contribution in the form of land on a largely City-owned site at 1117 Main Street (near the Community Market).

Program and Operating Assumptions

- Estimated development costs of \$60 per square foot, or \$2,100,000, not including land costs.
- Potential users include (1) contract or charter rentals (e.g., lessons or programs); (2) general admissions/public skating; and (3) in-house/programmed hockey leagues. The operating season is assumed to be 50 weeks per year.

Annual Revenue Potential and Operating Expenses

- Based on national participation rates in ice hockey and figure skating, assumes annual revenues generated by contract rentals (1,600 hours x \$150 per hour = \$240,000); general admissions (40,000 x \$4 per person = \$160,000); and in-house league play (20,000 x \$8 per person = \$160,000). Other potential revenues include those generated by concessions (40% of gross) and pro shop (30% of gross).
- Total annual gross revenue potential estimated at \$950,000.
- The model assumes annual operating expenses for salaries, cost of goods sold, general and administrative, building maintenance, utilities, insurance, capital expenditures and taxes totaling 80 percent of gross revenues, or \$760,000.

Feasibility and Economics

- This preliminary analysis yields net operating income of \$190,000, representing an operating margin of approximately 20%.
- Capitalizing net income at 10% yields supportable development costs of \$1,900,000, or a shortfall of (\$200,000) below estimated development costs. This financing gap will need to be filled by other sources. Public participation could take the form of land acquisition and a below-market ground lease to a developer. In addition, the City should consider providing gap financing and low-interest secondary financing.

Economic Benefits

- An ice-skating rink could expect to generate employment for up to four full-time staff and approximately 23 full-time-equivalent employees, generating \$583,000 in permanent wages and more than \$26,000 in state income taxes.
- Other economic benefits include \$840,000 in estimated construction income and \$23,300 in net new annual property taxes if the facility is under private ownership. In addition, employees will have disposable income to support nearby retailers and restaurants.

9.5 Multi-Screen Cinema

A multi-screen cinema is suggested for the vacant City Auditorium building on Main Street, which contains approximately 48,000 gross square feet on three floors. The cinema is conceived as a destination to complement the ice-skating rink across the street and nearby restaurants and bars. A building this size could accommodate about 500 seats in addition to back-of-house, circulation, and areas for concessions. Our program assumes a facility with up to four screens. Logical programming to distinguish the facility from nearby and regional multi-plex cinemas might include art films and independent first-run feature films.

Our current assessment of the cinema market in Lynchburg suggests that additional growth in demand, as well as some additional redevelopment progress downtown will be required to support this initiative. It is better thought of as a late-phase project.



Historic image of the City Auditorium on Main Street

Program and Operating Assumptions

- Estimated development costs are on the order of \$500,000 per screen, or \$2 million.
- Our analysis assumes that the City acquires the building and enters into a long-term lease agreement with a third-party developer/operator.

Annual Revenue Potential and Operating Expenses

- The model assumes that net growth in the regional theater market generates annual attendance of 50,000 per screen, or 200,000.
- Estimated annual revenues from ticket sales plus concessions (at 40% of gross) yields gross revenues totaling almost \$1.7 million.
- Estimated annual operating expenses (assuming stabilized operations) of 87% results in net operating income of \$218,400, or an operating margin to a private operator of 13% (including lease payments to the City for the use of the building).

Feasibility and Economics

- The operating expenses include annual rent to the City (assumed to be 10% of gross revenues), or \$170,000 per year. This translates into a rental rate of approximately \$3.50 per square foot for this City-owned building.
- Capitalizing net income at 10% yields an indicated value of \$2.18 million, indicating feasibility. Again, however, we believe this project is not yet supportable by the market given that Lynchburg can support 23 screens and there are currently 22.

Economic Benefits

- A four-screen multi-plex could expect to generate employment for up to four full-time staff and approximately 18 full-time-equivalent concession employee,s generating \$484,000 in permanent wages and almost \$22,000 in state income taxes.
- Other economic benefits include \$800,000 in estimated construction income and \$22,200 in net new annual property taxes assuming private ownership. In addition, employees will have disposable income to support nearby retailers and restaurants.

9.6 Bluff Walk Center

The Bluff Walk Center, which has been proposed for the eastern end of the bluff overlooking the James River Park, will be a significant catalyst for the downtown. The reuse of the brick warehouse structures for hotel, restaurant, and entertainment uses will complement the community market and other shops that have been opened along Main Street and Commerce Street at the eastern end of downtown. The Bluff Walk Center will also provide a bridge between downtown and the new parklands along the river below the bluff. The proposed Bluffwalk will provide a pedestrian link between the Bluff Walk Center at one end and Amazement Square, the Riverviews project, and the Human Services Complex on Ninth Street at the other end.

The Bluff Walk Center includes the following features:

- James River House, a 54-room boutique hotel
- Jefferson Street Family Restaurant and Microbrewery, a 150-seat family restaurant
- Virginia Wine Center Cafe, Bakery and Coffee House, a 75-seat wine cafe celebrating Virginia's growing wine industry and specialty coffees and teas
- Performance space, theater, and auditorium, a 150-seat theater for business conferences and weekend productions by local theater groups.

The project, which is being developed privately by Riverfront Development, LLC, is projected to have a construction cost of \$8 million. There are several public actions that will greatly enhance the feasibility of this project including the following:

- Bluffwalk easement acquisitions and improvements.
- James River Park improvements.
- Construction mitigation of the sewer interceptor installation in the lower basin.
- Participation in the provision of parking for the Bluff Walk Center, which could be shared with other downtown uses.
- Connection to the fiber optic line along the river.
- Assistance in state and federal grant or loan applications.
- Improvements to historic warehouse buildings along Commerce Street.

In September 2000, the City of Lynchburg received an Economic Development Initiative (EDI) grant in the amount of \$800,000 from the US Department of Housing and Urban Development for the hotel. In addition, the City is applying for an accompanying Section 108 loan from HUD for \$3,200,000 on behalf of the Bluff Walk Hotel. To date, private investors have pledged over \$1 million.

9.7 Corporate Center

A new Corporate Center could be developed at the prominent hilltop site near the interchange of Route 29 Expressway and Main Street. While somewhat removed from the activities of downtown, the site has excellent highway visibility and access as well as long views of the James River. The site will be competitive to a suburban office site, yet would have the added amenities of downtown and a riverfront location.

At a floor area ratio (FAR) of 1.8, the five-acre site could accommodate approximately 108,000 gross square feet on three floors. Parking will include 380 spaces at a ratio of 3.5 spaces per thousand square feet of building, with about one-third of the parking built into the hillside below the first floor of the building.

Approximately 8,000 gross square feet of retail floor area will line Main Street, establishing the urban character of the street at this key gateway location. The Corporate Center site will be bisected by a pedestrian pathway that leads to an overlook on the edge of the bluff and a set of stairs leading down to the riverfront area.

The development should be implemented by the private sector, which would need to assemble the property and finance it privately. The site now has a motel and other mixed uses on it. The City could assist in land assembly by providing low-interest construction loans and an expeditious permitting and approvals process.

Although a convention center has been proposed for this site in the past, redevelopment should not hinge on this possibility. A convention center requires substantial public investment, which in this case would be beyond the likely return on investment. Typically, convention centers strive to break even on their operating costs and must be competitive in the regional market. Given the size of the market in Lynchburg and the presence of a similar facility in Roanoke, feasibility of a convention center is not likely.

9.8 Retail Strategy

Every opportunity should be taken to develop new buildings on surface parking lots throughout the downtown, but particularly on Main Street and on Ninth Street. These new in-fill buildings should have ground-floor retail that will activate the streets. Ideally, any new buildings should have sufficient height to frame the street corridor, and should be at least two stories high. The upper floors could be used for professional offices or housing.

Retail uses value frontage real estate rather than depth back from the street. The new buildings should be only 60 feet deep maximum, which would allow for some parking and service behind the building. As a comparison, many of the existing retail buildings are 130 feet deep, which is substantially more floor area than is necessary for many tenants. Since the facades of the historic buildings are so important to the character of downtown, it may be possible to remove the back of some downtown buildings, which would accommodate the functional needs of parking and service deliveries.

Existing retail uses in the downtown area are estimated to occupy over 200,000 gross square feet, although much of this floor area is probably warehouse, storage, industrial supply, and underutilized space. An analysis of the market indicates a demand for only 82,000 gross square feet of retail space in downtown. Future projections for visitors, new employees, and residents in the downtown area suggest the ability to support an additional 27,000 gross square feet of retail space for a total of 109,000 gross square feet.

9.9 Renovation Opportunities

With over one million square feet of vacant space downtown, renovation of existing buildings is a high priority—to increase property values and add 24-hour life to the area. The challenge for developers is in obtaining up-front capital costs for building systems (i.e., heat, air, water, electric and elevator) that are particularly expensive for the large vacant warehouses scattered throughout the downtown.

Current assistance through historic tax credits, Enterprise Zone incentives and Facade Improvement Program reimbursements are apparently not enough to spur redevelopment of the larger historic warehouses. Additional incentives in the form of grants, loans or loan guarantees, or other appropriate incentives or mechanisms, are needed from the City, Industrial Development Authority, Lynchburg Redevelopment and Housing Authority and/or a Community Development Corporation. Their assistance would close the “financial gaps” that are now apparent between development costs and return on investments.

The smaller properties downtown (10,000 square feet or less) are more feasible to renovate given their lower up-front capital costs. It is for this reason that several smaller structures in the downtown have been renovated and occupied. One example is the 1200 block of Main Street where four structures were renovated in 1995 and now house eight apartments (fully rented) and five commercial units (fully leased). At the same time, several smaller properties in the downtown with retail occupants at ground level have not been renovated on the upper floors and therefore remain vacant. Attention should be given to these as well.

A major focus of the two newly created downtown positions with Lynch's Landing and the City's Economic Development Office (see Section 10.4 below) will be to address this challenge of filling vacant structures and finding the creative means to close “financial gaps” as identified in this plan.

